



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

HEALTH BENEFITS

BILL NUMBER: House Bill 244 (Second Edition)

SHORT TITLE: State Health Plan/Add Schools.

SPONSOR(S): Representative Murry

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: The bill permits the Board of Directors of Sterling Montessori Academy and Charter School and Casa Esperanza Montessori Charter School, which are public charter schools, to become participating employers under the Plan within 30 days after the act becomes law. Under G.S. 135-45.5, an election to join the Plan by the board of a charter school is irrevocable and shall require all eligible employees of the charter school to participate.

EFFECTIVE DATE: When it becomes law.

ESTIMATED IMPACT ON STATE:

The consulting actuary for the State Health Plan for Teachers and State Employees, Aon Consulting, estimates a financial loss to the Plan of \$336,800 for FY 2011-2012 if Sterling Montessori and Casa Esperanza charter schools both elect to participate in the Plan.

Aon Consulting noted that by solely comparing the Plan's current average plan membership and the combined charter schools' submitted employee and dependent demographic data, each charter school group should produce less in expected claims, on average, as compared to the Plan's covered group. However, absent historical claims experience data from either school to substantiate this assessment, Aon Consulting noted that there is no basis to rule out the risk of either school group having higher average claims costs than the current plan members. Therefore, for the purposes of estimating the combined schools' potential cost impact to the Plan, Aon Consulting assumed potential claims for each school would be 150% greater on average due to expected adverse selection of costlier plan members entering the Plan. Even with this assumption, and given the small size of each respective school, Aon Consulting estimates the projected costs would have a negligible impact on the Plan.

Hartman & Associates, consulting actuary for the General Assembly's Fiscal Research Division, estimates that the financial impact on the Plan would not be material upon Sterling Montessori and Casa Esperanza charter schools electing to participate in the Plan.

Hartman and Associates noted that the employee and dependent demographics of the combined schools' groups would be expected to produce similar costs as compared to the Plan's membership, and that given the minimal number of prospective employees and dependents to be enrolled, there is not expected to be a significant financial impact as a percent of total claims. Hartman & Associates, however, also noted the lack of available historical claims experience from either School to assess potential adverse selection against the Plan.

The additional cost impact of the bill, projected by either consulting actuary, would be expected to impact total claims growth by approximately one hundredth of one percent (0.01%) for the 2011-2012 fiscal year based on the highest estimate of additional cost (i.e., \$336,800).

ASSUMPTIONS AND METHODOLOGY: The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Authorized Charter Schools: As of December 2010, there are 59 charter schools with 3,524 enrolled active employees and dependents participating in the Plan.

Data submitted by the Schools: Aon Consulting and Hartman and Associates based their respective analyses in part on a Distribution of Participants schedule submitted by each school. The schedules below reflect the age and sex demographic data for employees and dependents for each of the respective schools. Neither school provided claims experience data due to a refusal of their respective incumbent carriers to release claims information on each School's participants.

Distribution of Participants -- Sterling Montessori												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4	0	0	0	0	0	0			0			0
5-9	0	0	0	1	0	1			0			0
10-14	0	0	0	1	3	4			0			0
15-19	0	0	0	1	3	4			0			0
20-24	0	0	0	1	1	2			0			0
25-29	0	4	4	0	0	0			0			0
30-34	4	7	11	0	0	0			0			0
35-39	2	8	10	0	0	0			0			0
40-44	1	17	18	1	1	2			0			0
45-49	1	7	8	0	2	2			0			0
50-54	1	9	10	1	0	1			0			0
55-59	1	1	2	1	0	1			0			0
60-64	1	0	1	0	0	0			0			0
65-69	0	2	2	0	0	0			0			0
70-74	0	1	1	0	0	0			0			0
75-79	0	0	0	0	0	0			0			0
>79	0	0	0	0	0	0			0			0
Unknown	0	0	0	0	0	0			0			0
TOTAL	11	56	67	7	10	17	0	0	0	0	0	0

Distribution of Participants – Casa Esperanza												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4			0		1	1			0			0
5-9			0	3	1	4			0			0
10-14			0		4	4			0			0
15-19			0			0			0			0
20-24		1	1	1	1	2			0			0
25-29	1	6	7			0			0			0
30-34		7	7			0			0			0
35-39		11	11			0			0			0
40-44	1	5	6			0			0			0
45-49		3	3	1		1			0			0
50-54		6	6			0			0			0
55-59		2	2			0			0			0
60-64		2	2	1		1			0			0
65-69			0			0			0			0
70-74			0			0			0			0
75-79			0			0			0			0
>79			0			0			0			0
Unknown			0			0			0			0
TOTAL	2	43	45	6	7	13	0	0	0	0	0	0

Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be \$2.90 billion for FY 2011-12 and \$3.08 billion for FY 2012-13. The Plan's PPO benefit design includes two alternative benefit levels listed below:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums; and
- 2) The "Standard" 80/20 plan.

The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under both plans is offered on a fully contributory basis.

The following table provides a summary of most monthly premium rates for the Plan in FY 2010-11:

<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Non-Medicare Active Employee/Retiree				
Employee	\$0.00	\$410.80	\$0.00	\$410.80
Employee + Child(ren)	\$178.68	\$410.80	\$237.62	\$410.80
Employee + Spouse	\$460.36	\$410.80	\$547.48	\$410.80
Employee + Family	\$490.34	\$410.80	\$580.44	\$410.80
<u>Coverage Type</u>	PPO Basic		PPO Standard	
	Employee/ Retiree	Employer	Employee/ Retiree	Employer
Medicare Primary for Only Employee/Retiree				
Employee	\$0.00	\$312.76	\$0.00	\$312.76
Employee + Child(ren)	\$187.60	\$312.76	\$237.62	\$312.76
Employee + Spouse	\$469.28	\$312.76	\$547.48	\$312.76
Employee + Family	\$499.26	\$312.76	\$580.44	\$312.76

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2010-11, employers contribute 4.9% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$721 million.

Financial Condition

Current and Projected Results for 2009-11 Biennium – The following summarizes actual financial results for FY 2009-10 and projected financial results for FY 2010-11, based on financial experience through December, 2010.

	(\$ millions)	
	Actual FY 2009-10	Projected FY 2010-11
Beginning Cash Balance	\$189.9	\$121.5
Receipts:		
Net Premium Collections	\$2,412.6	\$2,677.4
Early Retirement Reinsurance Program	\$0.0	\$45.0
Medicare Part D Subsidies	\$74.4	\$60.5
Investment Earnings	\$3.5	\$2.4
Total	\$2,490.5	\$2,785.3
Disbursements:		
Net Medical Claim Payment Expenses	\$1,797.5	\$1,860.5
Net Pharmacy Claim Payment Expenses	\$596.7	\$647.7
Administration and Claims-Processing Expenses	\$164.6	\$171.7
Total	\$2,558.9	\$2,679.9
Net Operating Income (Loss)	(\$68.4)	\$105.4

Financial Projection 2011-13 Biennium – The following summarizes a financial projection conducted by the Plan’s consulting actuary, Aon Consulting, for the 2011-13 biennium. The information is provided by fiscal year based on year-to-date financial experience (through December 2010) and other updated factors. The projection assumes a 9.5% annual claims growth trend, that benefit provisions remain the same, and that both employer and member-paid premiums are increased by 6.3% effective July 1, 2011 and July 1, 2012.

	(\$ millions)	
	Projected FY 2011-12	Projected FY 2012-13
Beginning Cash Balance	\$226.8	\$239.0
Receipts:		
Net Premium Collections	\$2,829.0	\$2,995.2
Early Retirement Reinsurance Program	\$25.6	\$0.0
Medicare Part D Subsidies	\$60.1	\$62.6
Investment Earnings	\$2.3	\$2.5
Total	\$2,917.0	\$3,060.3
Disbursements:		
Net Medical Claim Payment Expenses	\$2,065.1	\$2,199.0
Net Pharmacy Claim Payment Expenses	\$659.2	\$699.4
Administration and Claims-Processing Expenses	\$180.5	\$183.6
Total	\$2,904.8	\$3,082.0
Net Operating Income (Loss)	\$12.2	(\$21.7)

This projection incorporates \$151 million in projected savings over the biennium from a new Pharmacy Benefit Manager (PBM) contract to be effective October 1, 2011. It assumes that the Plan maintains “grandfathered” status under the federal Affordable Care Act (ACA). It assumes the Plan experiences an increase of \$33 million in claims over the biennium due to requirements in the ACA to cover additional dependents.

Other Information

In the 2009-11 biennium, the annual premium increases were applied at the beginning of each fiscal year of the biennium. Historically, the Plan had applied a premium increase in October of the first fiscal year of a biennium.

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9.5% annually according to the Plan’s consulting actuary. Investment earnings are based upon a 1.0% return on available cash balances. The active population is projected to decline by 1% per year, the COBRA population is projected to remain constant, and the retired population is projected to increase by 1% per year.

Enrollment as of December 31, 2010

State Health Plan Enrollment as of December 31, 2010				
I. No. of Participants	Basic	Standard	Total	Percent of Total
<u>Actives</u>				
Employees	65,849	256,468	322,317	48.6%
Dependents	<u>50,588</u>	<u>105,759</u>	<u>156,347</u>	<u>23.6%</u>
Sub-total	116,437	362,227	478,664	72.2%
<u>Retired</u>				
Employees	16,429	143,764	160,193	24.2%
Dependents	<u>4,352</u>	<u>14,173</u>	<u>18,525</u>	<u>2.8%</u>
Sub-total	20,781	157,937	178,718	26.9%
<u>Former Employees with Continuation Coverage</u>				
Employees	1,014	1,237	2,251	0.3%
Dependents	<u>403</u>	<u>347</u>	<u>750</u>	<u>0.1%</u>
Sub-total	1,417	1,584	3,001	0.5%
<u>Firefighters, Rescue Squad & National Guard</u>				
Employees	2	3	5	0.0%
Dependents	<u>1</u>	<u>2</u>	<u>3</u>	<u>0.0%</u>
Sub-total	3	5	8	0.0%
<u>Local Governments</u>				
Employees	486	1,429	1,915	0.3%
Dependents	<u>303</u>	<u>629</u>	<u>932</u>	<u>0.1%</u>
Sub-total	789	2,058	2,847	0.4%
<u>Total</u>				
Employees	83,780	402,901	486,681	73.4%
Dependents	55,647	120,910	176,557	26.6%
Grand Total	139,427	523,811	663,238	100%
Percent of Total	21.0%	79.0%	100.0%	
II. Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	55,472	335,154	390,626	
Employee Child(ren)	13,817	36,176	49,993	
Employee Spouse	5,719	17,462	23,181	
Employee Family	8,772	14,109	22,881	
Total	83,780	402,901	486,681	
Percent Enrollment by Contract				
	Basic	Standard	Total	
Employee Only	66.2%	83.2%	80.3%	
Employee Child(ren)	16.5%	9.0%	10.3%	
Employee Spouse	6.8%	4.3%	4.8%	
Employee Family	10.5%	3.5%	4.7%	
Total	100.0%	100.0%	100.0%	

III. Enrollment by Sex	Basic	Standard	Total
Female	75,627	338,703	414,330
Male	63,800	185,108	248,908
Total	139,427	523,811	663,238
Percent Enrollment by Sex	Basic	Standard	Total
Female	54.2%	64.7%	62.5%
Male	45.8%	35.3%	37.5%
Total	100.0%	100.0%	100.0%
IV. Enrollment by Age	Basic	Standard	Total
19 & Under	35,455	74,859	110,314
20 to 29	12,915	46,222	59,137
30 to 44	31,582	98,133	129,715
45 to 54	27,089	85,600	112,689
55 to 64	29,854	106,470	136,324
65 & Over	2,532	112,527	115,059
Total	139,427	523,811	663,238
Percent Enrollment by Age	Basic	Standard	Total
19 & Under	25.4%	14.3%	16.6%
20 to 29	9.3%	8.8%	8.9%
30 to 44	22.7%	18.7%	19.6%
45 to 54	19.4%	16.3%	17.0%
55 to 64	21.4%	20.3%	20.6%
65 & Over	1.8%	21.5%	17.3%
Total	100.0%	100.0%	100.0%
V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,034	11,292	64,326
Medicare Eligible	107,159	7,233	114,392
Total	160,193	18,525	178,718
Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	33.1%	61.0%	36.0%
Medicare Eligible	66.9%	39.0%	64.0%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	75,779	33,151	108,930
UNC System	50,357	29,457	79,814
Local Public Schools	180,864	86,046	266,910
Local Community Colleges	15,317	7,693	23,010
Other			
Local Governments	1,915	932	2,847
COBRA	2,251	750	3,001
Nat. Guard, Fire & Rescue	5	3	8
Sub-total	326,488	158,032	484,520
Retirement System	160,193	18,525	178,718
Total	486,681	176,557	663,238
Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	15.6%	18.8%	16.4%
UNC System	10.3%	16.7%	12.0%
Local Public Schools	37.2%	48.7%	40.2%
Local Community Colleges	3.1%	4.4%	3.5%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA	0.5%	0.4%	0.5%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	67.1%	89.5%	73.1%
Retirement System	32.9%	10.5%	26.9%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

-Actuarial Note, Hartman & Associates, House Bill 244, “House Bill 244 Proposed Committee Substitute H244-CSR-18 [v.2]: An Act to Authorize Sterling Montessori Academy and the Casa Esperanza Montessori Charter School to Elect to Participate in the State Health Plan for Teachers and State Employees,” June 1, 2011, an original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, Aon Consulting, House Bill 244, “ House Bill 244 Proposed Committee Substitute H244-CSR-18 [v.2] State Health Plan/Add Sterling Montessori Academy,” June 1, 2011, an original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: David Vanderweide

APPROVED BY: Mark Trogdon, Acting Director
Fiscal Research Division

DATE: June 2, 2012



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